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MEMORANDUM

Arizona Corporation Commission

DOCKETED

MAR 05 2014

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DOCKETED BY	
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DATE: March 5, 2014

RE: Q MOUNTAIN MOBILE HOME PARK DBA Q MOUNTAIN VISTA WATER –
APPLICATION FOR A RATE INCREASE, DOCKET NO. W-02518A-13-0414

Attached is the Staff Report for Q Mountain Mobile Home Park dba Q Mountain Vista Water's application for a permanent rate increase. Staff recommends approval of its rates and charges.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before March 17, 2014.

SMO:TBH:tdp\ML

Originator: Teresa B. Hunsaker

ORIGINAL

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AZ CORP COMMISSION
DOCKET CONTROL

Service List for: Staff Report for Q Mountain Mobile Home Park
Docket No. W-02518A-13-0414

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

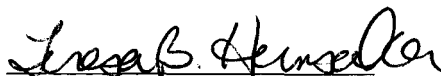
**Q MOUNTAIN MOBILE HOME PARK
DBA Q MOUNTAIN VISTA WATER
DOCKET NO. W-02518A-13-0414**

**APPLICATION
FOR A
PERMANENT RATE INCREASE**

MARCH 5, 2014

STAFF ACKNOWLEDGMENT

The Staff Report for Q Mountain Mobile Home Park dba Q Mountain Vista Water (Docket No. W-02518A-13-0414) was the responsibility of the Staff members listed below. Teresa B. Hunsaker was responsible for the review and analysis of the Company's application for a permanent rate increase, recommended revenue requirement, rate base, and rate design. Katrin Stukov was responsible for the engineering and technical analysis. Al Amezcua was responsible for reviewing the Arizona Corporation Commission's records on the Company and reviewing customer complaints filed with the Commission.



Teresa B. Hunsaker
Public Utilities Analyst II



Katrin Stukov
Utilities Engineer



Al Amezcua
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY OF
Q MOUNTAIN MOBILE HOME PARK
DBA Q MOUNTAIN VISTA WATER
DOCKET NO. W-02518A-13-0414**

Q Mountain Mobile Home Park dba Q Mountain Vista Water ("Q Mountain" or "Company") is a class D non-profit Arizona public service corporation that provides potable water service currently serving 226 metered customers in a 244 lot mobile home subdivision and 2 metered customers in two contiguous areas for a total of 228 connections. The Company is located within the Town of Quartzsite ("Town"), La Paz County, Arizona.

Q Mountain's proposed rates would increase revenue by \$17,283 or 27.99 percent over test year revenues of \$61,737 to \$79,020, which would result in an operating income of \$19,458 as shown on Schedule TBH-1. This results in a 59.67 percent rate of return on the Company's proposed fair value rate base ("FVRB"), which is also its original cost rate base ("OCRB") of \$32,610. Under the Company's proposed rates, the typical residential monthly bill for a 5/8 x 3/4-inch meter bill with a median usage of 1,290 gallons would increase from \$16.58 to \$21.87, an increase of \$5.29 or 31.91 percent, as shown on Schedule TBH-5.

Staff recommends rates that would increase revenue by \$15,624 or 25.31 percent over test year revenues of \$61,737 to \$77,361, which would result in an operating income of \$15,303 as shown on Schedule TBH-1. This equates to a 48.05 percent rate of return on Staff's adjusted OCRB of \$31,851. Under the Staff-recommended rate design, the typical residential monthly bill, with median usage of 1,290 gallons would increase from \$16.58 to \$20.23, an increase of \$3.65 or 21.98 percent, as shown on Schedule TBH-5.

The Company's proposed rates and resulting operating income would produce a 24.62 percent operating margin. Staff recommended rates and resulting operating income would produce a 19.78 percent operating margin, as shown on Schedule TBH-1.

Staff recommends:

1. That the Commission approve the Staff-recommended rates and charges as shown in Schedule TBH-4.
2. That the Company be ordered to file with Docket Control, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.
3. That any rate increase approved in this matter not become effective until the Company files with Docket Control documentation from ADEQ indicating that there are no compliance deficiencies and the Q Mountain Mobile Home Park Water System (Public Water System No. 15-509) is delivering water that meets the water quality standards required by 40 C.F.R. 14 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

4. That the Company continue to record and monitor monthly water losses, repair any leak as soon as it is discovered and implement corrective measures recommended by ADEQ Technical Assistance Program. Staff recommends that the Company submit a water loss monitoring report to the Commission every January and July, until water loss is less than 10 percent, or until further order of the Commission, whichever comes first. The water loss monitoring report should include gallons purchased, gallons sold, gallons of non-revenue beneficial uses and water loss percentage for each month during the year.
5. Approval of the Company-proposed Best Management Practices ("BMP") included in Attachment I. Staff further recommends that the Company notify its customers, in a form acceptable to Staff, of the BMP tariffs authorized in this proceeding and their effective date by means of either an insert in the next regularly scheduled billing or by a separate mailing and shall provide copies of the BMP tariffs to any customer, upon request. The Company may request copy recovery of actual expenses associated with the BMP's implemented in its next general rate case.
6. That the Company be ordered to use the depreciation rates delineated in Table B of the attached Engineering Report.
7. That the Company continue not charging for service line and meter installations.
8. That the Commission approve the Staff-recommended charge for Non-Sufficient Fund Check Charge for \$20.00.

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SCHEDULES

Summary of Filing	Schedule TBH-1
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Typical Bill Analysis	Schedule TBH-5

ATTACHMENT

Engineering Report	Attachment A
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Fact Sheet

Company: Q Mountain Mobile Home Park dba Q Mountain Vista Water Company ("Q Mountain" or "Company")

Current Rates: Decision No. 72394, dated May 27, 2011. Rates were effective June 1, 2011.

Type of Ownership: Non-profit Corporation

Location: Company is located within the Town of Quartzsite ("Town"), La Paz County, Arizona. The Company is not located in an Active Management Area ("AMA").

Filing Information:

Rate Application Docketed: November 29, 2013
Application Found Sufficient: December 20, 2013
Amendment to Rate Application Docketed: February 11, 2014
Current Test Year Ended: December 31, 2012
Prior Test Year Ended: December 31, 2009

Metered Rates

	Company Current Rates	Company Proposed Rates	Staff Recommended Rates
Based on 5/8 x 3/4-inch meter			
Monthly Minimum Charge	\$14.00	\$18.00	\$17.00
Gallons in minimum	0	0	0
Commodity Charge (per 1,000 gallons)			
0 to 2,000 gallons	\$2.00	\$3.00	N/A
2,001 to 8,000 gallons	\$3.70	\$4.70	N/A
Over 8,000 gallons	\$6.00	\$7.00	N/A
0 to 2,000 gallons	N/A	N/A	\$2.50
2,001 to 7,000 gallons	N/A	N/A	\$5.00
Over 7,000 gallons	N/A	N/A	\$7.50
Typical residential bill			
(based on median usage of 1,290 gallons)	\$16.58	\$21.87	\$20.23

Customers

Number of customers in prior test year (12/31/09): 224

Number of customers in the current test year (12/31/12): 228

Current test year customers by meter size:

5/8 X 3/4 - inch	227
1 - inch	1

Seasonal customers: 139

Customer notification for rate application mailed: November 27, 2013

Number of customer complaints concerning rate application filed: 0

Percentage of complaints to customer base: 0

Summary of Filing

The test year results, as adjusted by Utilities Division Staff ("Staff") show total operating revenue of \$61,737 and operating expenses of \$61,914 resulting in a \$177 operating loss, and no operating margin as shown on Schedule TBH-1. The Original Cost Rate Base ("OCRB") as adjusted by Staff is \$31,851.¹

Q Mountain's proposed rates would increase revenue by \$17,283 or 27.99 percent over test year revenues of \$61,737 to \$79,020, which would result in an operating income of \$19,458 as shown on Schedule TBH-1. This produces a 59.67 percent rate of return on the Company's proposed fair value rate base ("FVRB"), which is also its original cost rate base ("OCRB") of \$32,610. The Company is proposing to increase the monthly minimum charge from \$14.00 to \$18.00. Under the Company's proposed rates, the typical residential monthly bill for a 5/8 x 3/4-inch meter bill with a median usage of 1,290 gallons would increase from \$16.58 to \$21.87, an increase of \$5.29 or 31.91 percent, as shown Schedule TBH-5.

Staff recommends rates that would increase revenue by \$15,624 or 25.31 percent over test year revenues of \$61,737 to \$77,361, which would result in an operating income of \$15,303 as shown on Schedule TBH-1. This produces a 48.05 percent rate of return on Staff's adjusted OCRB of \$31,851. Under the Staff-recommended rate design, the typical residential monthly bill, with median usage of 1,290 gallons would increase from \$16.58 to \$20.23, an increase of \$3.65 or 21.98 percent, as shown on Schedule TBH-5.

The Company's proposed rates and resulting operating income would produce a 24.62 percent operating margin. Staff recommended rates and resulting operating income would produce a 19.78 percent operating margin, as shown on Schedule TBH-1.

Background

Q Mountain is a non-profit homeowner's association that serves primarily mobile homes. The original Certificate of Convenience and Necessity ("CC&N") for the Company's service territory was granted in Decision No. 56484, dated May 17, 1989.

On November 29, 2013, Q Mountain filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission"). The Company is a Class D water provider authorized to provide water service in its service area located in La Paz County. During the test year ended December 31, 2012, the Company provided potable water service to an average of 228 customers. The Company has 227 5/8 x 3/4-inch meter customers and one 1-inch meter customer. On December 20, 2013, Staff deemed the application sufficient. On February 3, 2014, the Company amended previously filed tariffs with the Commission. On February 11, 2014, the Company amended specific pages within the rate application and provided support for plant adjustments.

¹ The Company did not propose a fair value rate base that differs from its OCRB.

Consumer Services

Staff's review of the Commission's records for the period beginning January 1, 2011, to February 20, 2014, reveals zero complaints have been filed for the Company. No opinions have been filed regarding this application.

The Company's current bill complies with R-14-409.B.2² for minimum bill information. An affidavit of mailing was received on November 29, 2013, advising that notice to customers was sent by First Class U.S. Mail.

Compliance

Q Mountain is current on its sales and property taxes. The Utilities Division Compliance Section shows no outstanding compliance issues. Q Mountain is in good standing with the Corporation Division of the Commission. Q Mountain is current on its property and sales tax payments.

The Company is currently deficient in its compliance with Arizona Department of Environmental Quality ("ADEQ"). See Attached Staff Engineering Report – Attachment A. Staff recommends that any rate increase approved in this matter not become effective until the Company files with Docket Control documentation from ADEQ indicating that there are no compliance deficiencies and the Q Mountain Mobile Home Park Water System (Public Water System No. 15-509) is delivering water that meets the water quality standards required by 40 C.F.R. 14 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

Engineering Analysis and Recommendations

Staff Engineer, Katrin Stukov, inspected the Company's plant facilities on January 15, 2014, accompanied by Company representatives Cheryl Greenstreet and Jack Beebe. A discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the Engineering Report – Attachment A.

Rate Base

Staff's adjustments decreased the Company's proposed rate base by \$759, from \$32,610 to \$31,851, as shown on Schedule TBH-2, page 1. Details of Staff's adjustments are discussed below.

² Per Arizona Administrative Code, Title 14, Chapter 2, R14-2-409.B.2.a through R14-2-409.B.2.j each bill for residential service will contain minimum information.

Plant in Service

The Plant in Service is described in the Engineering report and on Schedule TBH-2. Q Mountain included \$10,034 for plant additions for the initial installation of the backflow prevention assembly and water main from the Town meter in 2008. These plant additions from 2008 were previously excluded in the last rate case. The Company spent \$9,053 for the installation of a pressure reduction assembly and the replacement parts of the backflow prevention assembly in plant additions in 2012 as described in the Engineering Report. The Company requested inclusion in the Plant in Service and Staff concurs.

Accumulated Depreciation

Staff adjustment A increases accumulated depreciation by \$967, from \$43,461 to \$44,428, as shown on Schedule TBH-2, pages 1 and 3. The increase reflects the depreciation related to the water mains, backflow prevention devices, pressure reducer assembly, other plant and miscellaneous equipment costs from the plant addition previously excluded in the last rate case and the additions in 2012 as described in the Engineering Report. Staff used a half-year convention in 2012 for the year the assets were included in plant.

Working Capital

Q Mountain proposed a working capital allowance of \$4,636. Staff's adjustments B and C resulted in a net increase to working capital of \$208, from \$4,636 to \$4,844, as shown on Schedule TBH-2, pages 1 and 4.

Cash working capital was calculated by using the formula method which equals one-eighth of the operating expenses less depreciation, taxes, purchased power and purchased water expenses plus one twenty-fourth of purchased power and purchased water expenses.

Statement of Operating Income

Staff's seven pro-forma operating expense adjustments result in an operating loss to the Company's proposed operating income from \$2,175 to a loss of \$177, as shown on Schedule TBH-3, pages 1 - 4.

Operating Expenses

Staff's adjustments to operating expenses resulted in a net increase of \$2,352, from \$59,562 to \$61,914, as shown on Schedule TBH-3, page 1. Details of Staff's adjustments are presented below.

Salaries and Wages – Adjustment A increases this account by \$6,000, from \$0 to \$6,000, as shown on Schedule TBH-3 pages 1 and 2. Staff's adjustment reflects a \$500 monthly salary for a bookkeeper who is currently providing services at no cost to the utility. Staff previously recommended \$4,800 in the last rate case³ for the annual salary for a bookkeeper. The Company indicated the salary expense was not incurred due to Company operating at a loss due to the unexpected water loss and high maintenance expenses.

Purchased Water – Adjustment B decreases this account by \$3,659, from \$32,701 to \$29,042, as shown on Schedule TBH-3 pages 1 and 2. Staff adjusted the purchased water for water loss. Staff included gallons sold and non-revenue beneficial uses plus ten percent for allowable water losses. The total allowable gallons were adjusted to the current commodity rates and base rates for the Town. The Company's contract with the Town will end in October 2014 and will be subject to the current rates.

The current rates from the Town are as follows: \$843.23 monthly water base fee and a \$2.37 commodity charge per 1,000 gallons. The current rates went into effect in January 2011 as adopted by Town Resolution 10-01 on January 26, 2010. Staff used the current commodity rates and base rates resulting in a decrease for purchased water by \$3,659 to remove costs of water loss in excess of allowed, as shown on Schedule TBH-3, pages 1 and 2.

Repairs and Maintenance Expense – Adjustment C increases repairs and maintenance expense by \$3,868, from \$6,745 to \$10,613, as shown on Schedule TBH-3 pages 1 and 2. Staff used the average of repairs and maintenance to normalize these expenditures from 2011 to 2013. Staff reviewed the invoices provided in support of repairs and maintenance expenses and outside services and found that the Company included a portion of repairs and maintenance expenses in outside services expenses. The detail to Staff's adjustment is shown on Schedule TBH-3, page 2.

Outside Services Expense – Adjustment D decreases outside services expense by \$6,215, from \$9,695 to \$3,480, as shown on Schedule TBH-3 pages 1 and 3. The Company included repairs and maintenance expenses in this account. Staff reviewed the invoices provided in support of repairs and maintenance expenses and outside services and found that the Company included \$6,065 of repairs and maintenance expenses in outside services expenses. Staff disallowed \$150 for 2011 expenses paid in 2012.

Water Testing – Adjustment E increases water testing expense by \$100, from \$530 to \$630, as shown on Schedule TBH-3 pages 1 and 3. This adjustment reflects Staff's estimation of the annual water testing cost as reported in the attached Engineering Report.

³ Per Decision 72394 dated May 27, 2011 for W-02518A-10-0227.

Regulatory Commission Expense – Rate Case – Adjustment F increases this account by \$1,277, from \$0 to \$1,277, as shown on Schedule TBH-3 pages 1 and 3. This adjustment reflects the Company's estimates of the expense for this rate case of \$3,831. The Company estimates \$3,500 for 10 hours for rate case assistance for Legal Counsel and \$331 for copies, postage and preparation expenses to be incurred in 2014. Staff normalized these expenses over 3 years. The detail to Staff's adjustment is shown on Schedule TBH-3, page 3.

Depreciation Expense – Adjustment G increases depreciation expense by \$981, from \$763 to \$1,744, as shown on Schedule TBH-3 pages 1 and 3. Staff's depreciation expense reflects application of Staff's recommended depreciation rates to Staff's recommended plant balances.

Revenue Requirement

Staff's recommended revenue requirement was developed using the cash flow methodology. Staff's recommended cash flow is sufficient to allow the Company to pay for its operations, maintenance, and to cover contingencies.

Staff recommends total operating revenue of \$77,361, an increase of \$15,624, or 25.31 percent above the Staff adjusted test year revenue of \$61,737. Staff's recommended revenue provides operating income of \$15,303 for an operating margin of 19.78 percent and a rate of return of 48.05 percent as shown on Schedule TBH-1.

Rate Design

Schedule TBH-4 presents a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

Q Mountain has 228 metered customers: approximately 89 are full time and the remaining 139 are seasonal. When the seasonal customers leave, water usage will be at its lowest level. This situation heavily impacts rate design considerations because the monthly revenue generated must be stable enough to pay for water plant as well as its management and operations all year long. Currently, approximately 62 percent of the revenue is generated from the monthly minimum and 38 percent is generated from the commodity charge. To help ensure revenue stability, Staff continues to recommend that more than half of the revenue be generated from the monthly minimum. Staff recommended rates result in 60 percent and 40 percent of the revenue be generated from the monthly minimum and commodity charges, respectively.

Q Mountain's present rate structure includes a monthly minimum charge that increases by meter size and an inverted three-tier commodity rate with break-over points at 2,000 and 8,000 gallons for all meter sizes. Q Mountain's proposed rates structure has increases in monthly minimum charges and increases in the inverted three-tier commodity rates with the same break over points at 2,000 and 8,000. Under the Company-proposed rates, the typical

residential monthly bill for 5/8 x 3/4-inch meters with a median usage of 1,290 gallons would increase by \$5.29 from \$16.58 to \$21.87, as shown on Schedule TBH-5.

Under Staff's recommended rates, the monthly minimum charges vary by meter size and include no gallons. The commodity rates are based on an inverted three-tier rate design for residential meter sizes and an inverted two-tier rate design for commercial meter sizes, as shown on Schedule TBH-4. Staff's recommended rate structure has increases in monthly minimum charges and increases in the inverted three-tier commodity rates with the break over points at 2,000 and 7,000 gallons for residential meter sizes. Staff's recommended rates would increase the typical 5/8 x 3/4-inch meter bill with a median usage of 1,290 gallons from \$16.58 to \$20.23, for an increase of \$3.65, or 21.98 percent, as shown on Schedule TBH-5.

Miscellaneous Service Charges

Q Mountain proposes no changes to the establishment service charges of \$35, reconnection (delinquent) charge of \$50, after hour service charge (at customer request) of \$45, meter test (if correct) of \$20 and meter re-read of \$10. Staff recommends no changes to the establishment service charge of \$35, after hour service charge (at customer request) of \$45, meter test (if correct) of \$20 and meter re-read of \$10, as shown on Schedule TBH-4, page 2 of 2.

The Company was utilizing the reconnection (delinquent) charge as a penalty/after-hours charge. Staff provided an explanation of the after hour service charges, reconnection (delinquent) and how they should be utilized. The Company agreed to appropriately utilize service charges.

Q Mountain proposes to change the Non-Sufficient Fund ("NSF") Check Charge from \$10 to \$25. Staff recommends an NSF check charge of \$20, as shown on Schedule TBH-4, page 2 of 2. The charge is based on bank costs provided by the Company, \$7.50 per U.S. customer and \$15.00 per Canadian customer.

Service Line and Meter Installation Charges

Staff does not object to the Company not charging for meter and service line installations. No charges are included in the rate design as shown on Schedule TBH-4, page 2 of 2. The subdivision installed the service lines and meters to most of the 244 lots in the late the 1980's and 1990's, and therefore the Company would prefer to continue not charging installation charges because of the administrative cost of refunding these charges outweigh the benefit. The Company's current tariff schedule has no service line and meter installation charges, and the Company did not request these charges be added to its tariff.

Staff Recommends:

1. That the Commission approve the Staff-recommended rates and charges as shown in Schedule TBH-4.
2. That the Company be ordered to file with Docket Control, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.
3. That any rate increase approved in this matter not become effective until the Company files with Docket Control documentation from ADEQ indicating that there are no compliance deficiencies and the Q Mountain Mobile Home Park Water System (Public Water System No. 15-509) is delivering water that meets the water quality standards required by 40 C.F.R. 14 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.
4. That the Company continue to record and monitor monthly water losses, repair any leak as soon as it is discovered and implement corrective measures recommended by ADEQ Technical Assistance Program. Staff recommends that the Company submit a water loss monitoring report to the Commission every January and July, until water loss is less than 10 percent, or until further order of the Commission, whichever comes first. The water loss monitoring report should include gallons purchased, gallons sold, gallons of non-revenue beneficial uses and water loss percentage for each month during the year.
5. Approval of the Company-proposed Best Management Practices ("BMP") included in Attachment I. Staff further recommends that the Company notify its customers, in a form acceptable to Staff, of the BMP tariffs authorized in this proceeding and their effective date by means of either an insert in the next regularly scheduled billing or by a separate mailing and shall provide copies of the BMP tariffs to any customer, upon request. The Company may request copy recovery of actual expenses associated with the BMP's implemented in its next general rate case.
6. That the Company be ordered to use the depreciation rates delineated in Table B of the attached Engineering Report.
7. That the Company continue not charging for service line and meter installations.
8. That the Commission approve the Staff-recommended charge for Non-Sufficient Fund Check Charge for \$20.00.

SUMMARY OF FILING

	-- Present Rates --		Proposed	Recommended
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$61,317	\$61,317	\$78,600	\$76,941
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	420	420	420	420
Total Operating Revenue	\$61,737	\$61,737	\$79,020	\$77,361
Operating Expenses:				
Operation and Maintenance	\$56,743	\$58,114	\$56,743	\$58,114
Depreciation	763	1,744	763	1,744
Property & Other Taxes	2,056	2,056	2,056	2,199
Income Tax	0	0	0	0
Total Operating Expense	\$59,562	\$61,914	\$59,562	\$62,058
Operating Income/(Loss)	\$2,175	(\$177)	\$19,458	\$15,303
Rate Base O.C.L.D.	\$32,610	\$31,851	\$32,610	\$31,851
Rate of Return - O.C.L.D.	6.67%	N/M	59.67%	48.05%
Operating Margin	3.52%	N/M	24.62%	19.78%

NOTES: 1. N/M means that the calculation is not meaningful.

2. Operating Margin represents the proportion of cash flow available to pay interest and other below the line expenses.

RATE BASE			
	----- Original Cost -----		
	Company	Adjustment Ref	Staff
Plant in Service	\$71,435	\$0	\$71,435
Less:			
Accum. Depreciation	43,461	967 A	44,428
Net Plant	\$27,974	(\$967)	\$27,007
Less:			
Plant Advances	\$0	\$0	\$0
Accumulated Deferred Income Taxes	0	0	0
Total Advances	\$0	\$0	\$0
Contributions Gross	\$0	\$0	\$0
Less:			
Amortization of CIAC	0	0	0
Net CIAC	\$0	\$0	\$0
Total Deductions	\$0	\$0	\$0
Plus:			
1/24 Power	\$1,363	(\$153) B	\$1,210
1/8 Operation & Maint.	3,273	361 C	3,634
Inventory	0	0	0
Prepayments	0	0	0
Total Additions	\$4,636	\$208	\$4,844
Rate Base	\$32,610	(\$759)	\$31,851

Explanation of Adjustment:

- A - For Rate Base adjustment A, see Sch TBH-2, page 2 and page 3
B - For Rate Base adjustment B, see Sch TBH-2, page 4
C - For Rate Base adjustment C, see Sch TBH-2, page 4

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	5,661	0	5,661
304 Structures & Improvements	0	0	0
307 Wells & Springs	0	0	0
310 Power Generation Equipment	0	0	0
311 Pumping Equipment	0	0	0
320 Water Treatment Equipment	0	0	0
320.1 Water Treatment Plants	0	0	0
320.2 Solution Chemical Feeders	0	0	0
330 Distribution Reservoirs & Standpipes	0	0	0
330.1 Storage Tanks	0	0	0
330.2 Pressure Tanks	0	0	0
331 Transmission & Distribution Mains	33,235	0	33,235
333 Services	4,210	0	4,210
334 Meters & Meter Installations	3,465	0	3,465
335 Hydrants	0	0	0
336 Backflow Prevention Devices	10,054	0	10,054
336.1 Pressure Reducer Assembly	4,187	0	4,187
339 Other Plant and Misc. Equipment	10,623	0	10,623
340 Office Furniture & Equipment	0	0	0
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equipment	0	0	0
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
TOTALS	\$71,435	\$0	\$71,435

Explanation of Adjustment:

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$43,461
Accumulated Depreciation - Per Staff see Sch TBH-2, page 2	<u>44,428</u>
Total Adjustment	<u>\$967</u> A

Accumulated depreciation for new plant additions:

Acct No.	Description	Per Company	Per Staff	
331	Transmission & Distribution Mains	\$30,559	\$30,579	
333	Services	\$3,639	\$3,640	
334	Meters & Meter Installations	\$3,313	\$3,313	
336	Backflow Prevention Devices	\$24	(\$90)	
336.1	Pressure Reducer Assembly	\$42	\$140	
339	Other Plant & Misc. Equipment	\$5,884	\$6,846	
	Total	<u>\$43,461</u>	<u>\$44,428</u>	<u>\$967</u>

Explanation of Adjustment:

- A - To adjust accumulated depreciation for new plant additions and other errors.

STAFF RATE BASE ADJUSTMENTS

B	- WORKING CAPITAL (1/24 PURCHASED POWER & WATER) -		
		Per Company	\$1,363
		Per Staff	\$1,210
	To reflect Staff's calculation of working capital based upon Staff's recommendations for purchased power and water.		<u>(\$153)</u>
C	- WORKING CAPITAL (1/8 OPERATION & MAINT EXP) -		
		Per Company	\$3,273
		Per Staff	\$3,634
	To reflect Staff's calculation of working capital based upon Staff's recommendations for operation and maintenance expense (excluding purchased power and purchased water expenses).		<u>\$361</u>

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted	Staff Adjustments	Staff Recommended
Revenues:					
461 Metered Water Revenue	\$61,317	\$0	\$61,317	\$15,624	\$76,941
460 Unmetered Water Revenue	0	0	0		\$0
474 Other Water Revenues	420	0	420		\$420
Total Operating Revenue	\$61,737	\$0	\$61,737	\$15,624	\$77,361
Operating Expenses:					
601 Salaries and Wages	\$0	\$6,000 A	\$6,000	-	\$6,000
610 Purchased Water	32,701	(3,659) B	29,042	-	\$29,042
615 Purchased Power	0	0	0	-	\$0
618 Chemicals	0	0	0	-	\$0
620 Repairs and Maintenance	6,745	3,868 C	10,613	-	\$10,613
621 Office Supplies & Expense	4,013	0	4,013	-	\$4,013
630 Outside Services	9,695	(6,215) D	3,480	-	\$3,480
635 Water Testing	530	100 E	630	-	\$630
641 Rents	450	0	450	-	\$450
650 Transportation Expenses	743	0	743	-	\$743
657 Insurance - General Liability	1,362	0	1,362	-	\$1,362
659 Insurance - Health and Life	504	0	504	-	\$504
666 Regulatory Commission Expense - Rate Case	0	1,277 F	1,277	-	\$1,277
675 Miscellaneous Expense	0	0	0	-	\$0
403 Depreciation Expense	763	981 G	1,744	-	\$1,744
408 Taxes Other Than Income	0	0	0	-	\$0
408.11 Property Taxes	2,056	0	2,056	143	\$2,199
409 Income Tax	0	0	0	-	\$0
Total Operating Expenses	\$59,562	\$2,352	\$61,914	\$143	\$62,058
OPERATING INCOME/(LOSS)	\$2,175	(\$2,352)	(\$177)	\$15,481	\$15,303

STAFF ADJUSTMENTS

A -	SALARIES AND WAGES - Per Company	\$0	
	Per Staff	6,000	\$6,000

Staff added \$6,000 to reflect the annual salary of a bookkeeper that is currently providing services to the utility at no cost:

\$	500	per month
x	12	months
\$	6,000	

B	PURCHASED WATER - Per Company	\$32,701	
	Per Staff	29,042	(\$3,659)

Staff reduced \$3,659 in order to adjust for the water purchases to included gallons sold, non-revenue beneficial uses and a 10% allowable water loss. The total gallons were adjusted to the current commodity rates and base rates. The Company's contract with the Town of Quartzsite will end in October 2014 and will be subject to prevailing rate. The Town has indicated to Staff that the Town will be increasing current rates in 2014 and is currently conducting a rate study, however until the rates are determined, Staff has increased by the prevailing rates.

	Col. [A]	Col. [B]	Col. [C] [A - B]	Col. [D] [C * 10%]	Col. [E] [C + D]	
	Gallons Purchased ¹	Gallons Loss	Gallons Sold and Non-Revenue Beneficial Uses ¹	Gallons - 10% Allowable Water Loss	Total Allowable Gallons	¹ Per Engineering Report
2012	11,881,000	(4,622,437)	7,258,563	725,856	7,984,419	

Commodity Rate		
2009 Contract Rate	\$	1.30
(Current Commodity Rate) 2011 Rate		2.37

Town Resolution 01-06 on February 13, 2001
Town Resolution 10-01 on January 26, 2010

Base Rate		
2009 Contract Rate	\$	1,436.50
(Current Base Rate) 2011 Base Rate		843.23

Town Resolution 01-06 on February 13, 2001
Town Resolution 10-01 on January 26, 2010

Total Purchased Water	
Total Allowable Gallons	7,984,419
Current Commodity Rate	2.37
Total Allowable Gallons/1000*Current Commodity Rate	18,923
Current Base Rate*12 months	10,119
Total Allowable Gallons at Current Rates	29,042
Purchased Water Adjustment	(3,659)

C -	REPAIRS AND MAINTENANCE - Per Company	\$6,745	
	Per Staff	10,613	\$3,868

Staff used the average of repair and maintenance to normalize these expenditures from 2011 to 2013 (post-test year). Company included portion of repairs and maintenance in outside services. This adjustment includes a Pro forma adjustment to normalize these expenditures.

Year	Amount
2013	\$4,635
2012	\$12,810
2011	\$14,395
3 yr. Average	\$10,613

D -	OUTSIDE SERVICES - Per Company	\$9,695	
	Per Staff	3,480	(\$6,215)

To reflect Staff's calculation of outside services expenses. Disallowed \$150 for 2011 expenses and \$6,065 repairs and maintenance expenses.

STAFF ADJUSTMENTS (Cont.)

E -	WATER TESTING - Per Company	\$530	
	Per Staff	630	\$100

To reflect Staff's calculation of water testing expense.

F -	REGULATORY COMMISSION EXPENSE - RATE CASE - Per Company	\$0	
	Per Staff	1,277	\$1,277

To reflect Staff's calculation of regulatory commission expense for the rate. Normalized over 3 years at \$3,500 for 10 hours for rate case assistance for Legal Counsel in 2014. Plus copies, postage and preparation expenses (bill counts, etc.). Volunteer time has not been included in these expenses.

G -	DEPRECIATION - Per Company	\$763	
	Per Staff	1,744	\$981

To reflect Staff's calculation of depreciation expense.

Acct No.	Description	PLANT In SERVICE Per Staff	NonDepreciable or Fully Depreciated PLANT	DEPRECIABLE PLANT (Col A - Col B)	DEPRECIATION RATE	DEPRECIATION EXPENSE (Col C x Col D)
301	Organization	\$0		\$0	0.00%	\$0
302	Franchises	\$0		\$0	0.00%	\$0
303	Land & Land Rights	\$5,661	\$5,661	\$0	0.00%	\$0
304	Structures & Improvements	\$0		\$0	3.33%	\$0
307	Wells & Springs	\$0		\$0	3.33%	\$0
310	Power Generation Equipment	\$0		\$0	5.00%	\$0
311	Pumping Equipment	\$0		\$0	12.50%	\$0
320	Water Treatment Equipment	\$0		\$0	3.33%	\$0
320.1	Water Treatment Plants	\$0		\$0	3.33%	\$0
320.2	Solution Chemical Feeders	\$0		\$0	20.00%	\$0
330	Distribution Reservoirs & Standpipes	\$0		\$0	0.00%	\$0
330.1	Storage Tanks	\$0		\$0	2.22%	\$0
330.2	Pressure Tanks	\$0		\$0	5.00%	\$0
331	Transmission & Distribution Mains	\$33,235	\$30,902	\$2,333	2.00%	\$47
333	Services	\$4,210	\$3,565	\$645	3.33%	\$21
334	Meters & Meter Installations	\$3,465	\$3,250	\$215	8.33%	\$18
335	Hydrants	\$0		\$0	2.00%	\$0
336	Backflow Prevention Devices	\$10,054		\$10,054	6.67%	\$671
336.1	Pressure Reducer Assembly	\$4,187		\$4,187	6.67%	\$279
339	Other Plant and Misc. Equipment	\$10,623		\$10,623	6.67%	\$709
340	Office Furniture & Equipment	\$0		\$0	6.67%	\$0
341	Transportation Equipment	\$0		\$0	20.00%	\$0
343	Tools Shop & Garage Equipment	\$0		\$0	5.00%	\$0
344	Laboratory Equipment	\$0		\$0	10.00%	\$0
345	Power Operated Equipment	\$0		\$0	5.00%	\$0
346	Communication Equipment	\$0		\$0	10.00%	\$0
347	Miscellaneous Equipment	\$0		\$0	10.00%	\$0
348	Other Tangible Plant	\$0		\$0	0.00%	\$0
	Total Plant	\$71,435	\$43,378	\$28,057		\$1,744

Test Year Depreciation Expense - Staff:	\$1,744
Depreciation Expense - Company:	\$763
Staff's Total Adjustment:	\$981

STAFF ADJUSTMENTS (Cont.)

LINE NO.	Property Tax Calculation	STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$61,737	\$61,737
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$123,474	\$123,474
4	Staff Recommended Revenue, Per Schedule TBH-1	\$61,737	\$77,361
5	Subtotal (Line 4 + Line 5)	\$185,211	\$200,835
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$61,737	\$66,945
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$123,474	\$133,890
10	Plus: 10% of CWIP -		-
11	Less: Net Book Value of Licensed Vehicles	\$0	\$0
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$123,474	\$133,890
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	\$23,460	\$25,439
15	Composite Property Tax Rate	7.2372%	7.24%
			\$0
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$1,698	
17	Company Proposed Property Tax	\$2,289	
18	Staff Test Year Adjustment (Line 16-Line 17)	(\$591)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$1,841
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$1,698
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$143
22	Increase to Property Tax Expense		\$143
23	Increase in Revenue Requirement		\$15,624
24	Increase to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		0.92%

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
Meter Size (All Classes):			
5/8 x 3/4 Inch	\$ 14.00	\$ 18.00	\$ 17.00
3/4 Inch	21.00	27.00	25.50
1 Inch	35.00	45.00	42.50
1 1/2 Inch	70.00	90.00	85.00
2 Inch	112.00	144.00	136.00
3 Inch	210.00	270.00	272.00
4 Inch	350.00	450.00	425.00
6 Inch	700.00	900.00	850.00
Gallons included in the minimum	0	0	0
Commodity Charge - Per 1,000 Gallons			
5/8" x 3/4" Meter and 3/4" Meter			
All Gallons	N/A	N/A	N/A
First 2,000 gallons	2.0000	3.0000	N/A
2,001 to 8,000 gallons	3.7000	4.7000	N/A
Over 8,000 gallons	6.0000	7.0000	N/A
First 2,000 gallons	N/A	N/A	2.5000
2,001 to 7,000 gallons	N/A	N/A	5.0000
Over 7,000 gallons	N/A	N/A	7.5000
1" Meter (All Classes)			
All Gallons	N/A	N/A	N/A
First 2,000 gallons	2.0000	3.0000	N/A
2,001 to 8,000 gallons	3.7000	4.7000	N/A
Over 8,000 gallons	6.0000	7.0000	N/A
First 20,000 gallons	N/A	N/A	5.0000
Over 20,000 gallons	N/A	N/A	7.5000
1 1/2" Meter (All Classes)			
All Gallons	N/A	N/A	N/A
First 2,000 gallons	2.0000	3.0000	N/A
2,001 to 8,000 gallons	3.7000	4.7000	N/A
Over 8,000 gallons	6.0000	7.0000	N/A
First 50,000 gallons	N/A	N/A	5.0000
Over 50,000 gallons	N/A	N/A	7.5000
2" Meter (All Classes)			
All Gallons	N/A	N/A	N/A
First 2,000 gallons	2.0000	3.0000	N/A
2,001 to 8,000 gallons	3.7000	4.7000	N/A
Over 8,000 gallons	6.0000	7.0000	N/A
First 80,000 gallons	N/A	N/A	5.0000
Over 80,000 gallons	N/A	N/A	7.5000
3" Meter (All Classes)			
All Gallons	N/A	N/A	N/A
First 2,000 gallons	2.0000	3.0000	N/A
2,001 to 8,000 gallons	3.7000	4.7000	N/A
Over 8,000 gallons	6.0000	7.0000	N/A
First 150,000 gallons	N/A	N/A	5.0000
Over 150,000 gallons	N/A	N/A	7.5000
4" Meter (All Classes)			
All Gallons	N/A	N/A	N/A
First 2,000 gallons	2.0000	3.0000	N/A
2,001 to 8,000 gallons	3.7000	4.7000	N/A
Over 8,000 gallons	6.0000	7.0000	N/A
First 300,000 gallons	N/A	N/A	5.0000
Over 300,000 gallons	N/A	N/A	7.5000
6" Meter (All Classes)			
All Gallons	N/A	N/A	N/A
First 2,000 gallons	2.0000	3.0000	N/A
2,001 to 8,000 gallons	3.7000	4.7000	N/A
Over 8,000 gallons	6.0000	7.0000	N/A
First 500,000 gallons	N/A	N/A	5.0000
Over 500,000 gallons	N/A	N/A	7.5000

Other Service Charges			
Establishment	\$ 35.00	\$ 35.00	\$ 35.00
Reconnection (Delinquent)	50.00	50.00	50.00
After Hour Service Charge (at customers request)	45.00	45.00	45.00
Meter Test (If Correct)	20.00	20.00	20.00
Deposit	(a)	(a)	(a)
Deposit Interest	(a)	(a)	(a)
Reestablishment (within 12 months)	(b)	(b)	(b)
NSF Check	10.00	25.00	20.00
Deferred Payment (per month)	1.5% (c)	1.5% (c)	1.5% (c)
Meter Re-read	10.00	10.00	10.00
Late Payment Fee	N/A	N/A	N/A
Reconnection (Delinquent and After Hours)	N/A	N/A	N/A

(a) Per Rule R14-2-403(B).
(b) Number of months off the system times the monthly minimum per A.A.C. R14-2-403(D).
(c) Per Month.
N/A Not Applicable

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule 14-2-409D(5).

Service and Meter Installation Charges							
	Total Present Charge	Proposed Service Line Charge	Proposed Meter Installation Charge	Total Proposed Charge	Recommended Service Line Charge	Recommended Meter Installation	Total Recommended Charge
Service Size	-	-	-	-	-	-	-
5/8 x 3/4 Inch	-	-	-	-	-	-	-
3/4 Inch	-	-	-	-	-	-	-
1 Inch	-	-	-	-	-	-	-
1 1/2 Inch	-	-	-	-	-	-	-
2 Inch Turbo	N/A	-	-	-	-	-	-
2 Inch Compound	-	-	-	-	-	-	-
3 Inch Turbo	N/A	-	-	-	-	-	-
3 Inch Compound	-	-	-	-	-	-	-
4 Inch Turbo	N/A	-	-	-	-	-	-
4 Inch Compound	-	-	-	-	-	-	-
6 Inch Turbo	N/A	-	-	-	-	-	-
6 Inch Compound	-	-	-	-	-	-	-

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

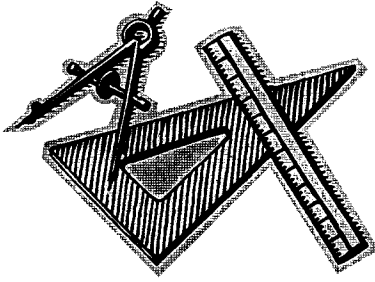
Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	2,582	\$ 20.15	\$ 26.74	\$ 6.58	32.66%
Median Usage	1,290	\$ 16.58	\$ 21.87	\$ 5.29	31.91%

Staff Recommended

Average Usage	2,582	\$ 20.15	\$ 24.91	\$ 4.76	23.60%
Median Usage	1,290	\$ 16.58	\$ 20.23	\$ 3.65	21.98%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons	Present	Company Proposed	%	Staff Recommended	%																																										
<table border="1"> <thead> <tr> <th colspan="2">5/8 x 3/4"</th><th colspan="2">5/8 x 3/4"</th><th colspan="2">5/8 x 3/4"</th></tr> </thead> <tbody> <tr> <td>Minimum Charge</td><td>\$ 14.00</td><td>Minimum Charge</td><td>\$ 18.00</td><td>Minimum Charge</td><td>\$ 17.00</td></tr> <tr> <td>1st Tier Rate</td><td>2.0000</td><td>1st Tier Rate</td><td>3.0000</td><td>1st Tier Rate</td><td>2.5000</td></tr> <tr> <td>1st Tier Breakover</td><td>2,000</td><td>1st Tier Breakover</td><td>2,000</td><td>1st Tier Breakover</td><td>2,000</td></tr> <tr> <td>2nd Tier Rate</td><td>3.7000</td><td>2nd Tier Rate</td><td>4.7000</td><td>2nd Tier Rate</td><td>5.0000</td></tr> <tr> <td>2nd Tier Breakover</td><td>8,000</td><td>2nd Tier Breakover</td><td>8,000</td><td>2nd Tier Breakover</td><td>7,000</td></tr> <tr> <td>3rd Tier Rate</td><td>6.0000</td><td>3rd Tier Rate</td><td>7.0000</td><td>3rd Tier Rate</td><td>7.5000</td></tr> </tbody> </table>						5/8 x 3/4"		5/8 x 3/4"		5/8 x 3/4"		Minimum Charge	\$ 14.00	Minimum Charge	\$ 18.00	Minimum Charge	\$ 17.00	1st Tier Rate	2.0000	1st Tier Rate	3.0000	1st Tier Rate	2.5000	1st Tier Breakover	2,000	1st Tier Breakover	2,000	1st Tier Breakover	2,000	2nd Tier Rate	3.7000	2nd Tier Rate	4.7000	2nd Tier Rate	5.0000	2nd Tier Breakover	8,000	2nd Tier Breakover	8,000	2nd Tier Breakover	7,000	3rd Tier Rate	6.0000	3rd Tier Rate	7.0000	3rd Tier Rate	7.5000
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3rd Tier Rate	6.0000	3rd Tier Rate	7.0000	3rd Tier Rate	7.5000																																										
Consumption	Rates	Rates	Increase	Rates	Increase																																										
-	\$ 14.00	\$ 18.00	28.57%	\$ 17.00	21.43%																																										
1,000	16.00	21.00	31.25%	19.50	21.88%																																										
2,000	18.00	24.00	33.33%	22.00	22.22%																																										
3,000	21.70	28.70	32.26%	27.00	24.42%																																										
4,000	25.40	33.40	31.50%	32.00	25.98%																																										
5,000	29.10	38.10	30.93%	37.00	27.15%																																										
6,000	32.80	42.80	30.49%	42.00	28.05%																																										
7,000	36.50	47.50	30.14%	47.00	28.77%																																										
8,000	40.20	52.20	29.85%	54.50	35.57%																																										
9,000	46.20	59.20	28.14%	62.00	34.20%																																										
10,000	52.20	66.20	26.82%	69.50	33.14%																																										
11,000	58.20	73.20	25.77%	77.00	32.30%																																										
12,000	64.20	80.20	24.92%	84.50	31.62%																																										
13,000	70.20	87.20	24.22%	92.00	31.05%																																										
14,000	76.20	94.20	23.62%	99.50	30.58%																																										
15,000	82.20	101.20	23.11%	107.00	30.17%																																										
16,000	88.20	108.20	22.68%	114.50	29.82%																																										
17,000	94.20	115.20	22.29%	122.00	29.51%																																										
18,000	100.20	122.20	21.96%	129.50	29.24%																																										
19,000	106.20	129.20	21.66%	137.00	29.00%																																										
20,000	112.20	136.20	21.39%	144.50	28.79%																																										
25,000	142.20	171.20	20.39%	182.00	27.99%																																										
30,000	172.20	206.20	19.74%	219.50	27.47%																																										
35,000	202.20	241.20	19.29%	257.00	27.10%																																										
40,000	232.20	276.20	18.95%	294.50	26.83%																																										
45,000	262.20	311.20	18.69%	332.00	26.62%																																										
50,000	292.20	346.20	18.48%	369.50	26.45%																																										
75,000	442.20	521.20	17.87%	557.00	25.96%																																										
100,000	592.20	696.20	17.56%	744.50	25.72%																																										



**Engineering Report For
Q Mountain Mobile Home Park
Docket No. W-02518A-13-0414 (Rates)**

January 28, 2014

SUMMARY

CONCLUSIONS

1. The Arizona Department of Environmental Quality ("ADEQ") has reported that the Q Mountain Mobile Home Park Company's ("Q Mountain" or "Company") has not submitted the monthly maximum residual disinfectant level for fourth quarter in 2012 nor for the first three quarters in 2013. One sample is required to be taken each time the Company collects a routine or repeat total coliform sample, and reported quarterly. The Company did not file required documents for Stage 2 disinfection byproducts that were due January 1, 2014. Based upon the monitoring and reporting deficiencies noted above, ADEQ cannot determine if the Company system is currently delivering water that meets water quality standards required by 40 C.F.R. 14 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. ADEQ has reported that water being served via the Town interconnect meets water quality standards required by 40 C.F.R. 14 and Arizona Administrative Code, Title 18, Chapter 4.
2. The Company's water system has a water loss of 32 percent, which exceeds the recommended threshold amount of 10 percent.
3. Based on the Company's water use data for the test year, Arizona Corporation Commission ("ACC") Utilities Division Staff ("Staff") concludes that the Company has adequate available water supply to serve the present customer base and a reasonable growth.
4. The Company's water system is not located in an Arizona Department of Water Resources ("ADWR") designated Active Management Area.
5. ADWR has determined that the Company's water system is currently in compliance with ADWR requirements governing water providers and/or community water systems.
6. The Company has no outstanding ACC compliance issues.
7. The Company's current tariff schedule has no service line and meter installation charges, and the Company did not request these charges be added to its tariff.
8. The Company has an approved curtailment plan tariff.

9. The Company has an approved backflow prevention tariff.

RECOMMENDATIONS

1. Staff recommends that any rate increase approved in this matter not become effective until the Company files with Docket Control documentation from ADEQ indicating that there are no compliance deficiencies and the Q Mountain Mobile Home Park Water System (Public Water System # 15-509) is delivering water that meets the water quality standards required by 40 C.F.R. 14 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.
2. Staff recommends that the Company continue to record and monitor monthly water losses, repair any leak as soon as it is discovered and implement corrective measures recommended by ADEQ Technical Assistance Program. Staff recommends that the Company submit a water loss monitoring report to the Commission every January and July, until water loss is less than 10 percent, or until further order of the Commission, whichever comes first. The water loss monitoring report should include gallons purchased, gallons sold, gallons of non- revenue beneficial uses and water loss percentage for each month during the year.
3. Staff recommends approval of the Company-proposed Best Management Practices ("BMPs") included in Attachment A. Staff further recommends that the Company notify its customers, in a form acceptable to Staff, of the BMP tariffs authorized in this proceeding and their effective date by means of either an insert in the next regularly scheduled billing or by a separate mailing and shall provide copies of the BMP tariffs to any customer, upon request. The Company may request cost recovery of actual expenses associated with the BMPs implemented in its next general rate application.
4. Staff recommends its annual water testing expense estimate of \$630 be used for this proceeding.
5. Staff recommends the depreciation rates as delineated in Table B be used by the Company.
6. Staff recommends approval of the Company continuing not to charge for service line and meter installations.

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I. INTRODUCTION AND LOCATION OF COMPANY

On November 29, 2013 the Q Mountain Mobile Home Park Company ("Q Mountain" or "Company") filed a rate application with the Arizona Corporation Commission ("ACC" or "Commission").

The Q Mountain water system is located within the Town of Quartzsite ("Town") in La Paz County and provides water service to over 220 customers (226 connections in a 244 lot mobile home subdivision and 2 connections in two contiguous areas).

Figure 1 shows the location of the Company within La Paz County and Figure 2 delineates the Company's certificated service area which covers approximately 57 acres.

The Q Mountain plant facilities were visited on January 15, 2014, by Katrin Stukov, Commission Utilities Division Staff ("Staff") Engineer, in the accompaniment of Cheryl Greenstreet and Jack Beebe, representing the Company.

Figure 1

LA PAZ COUNTY

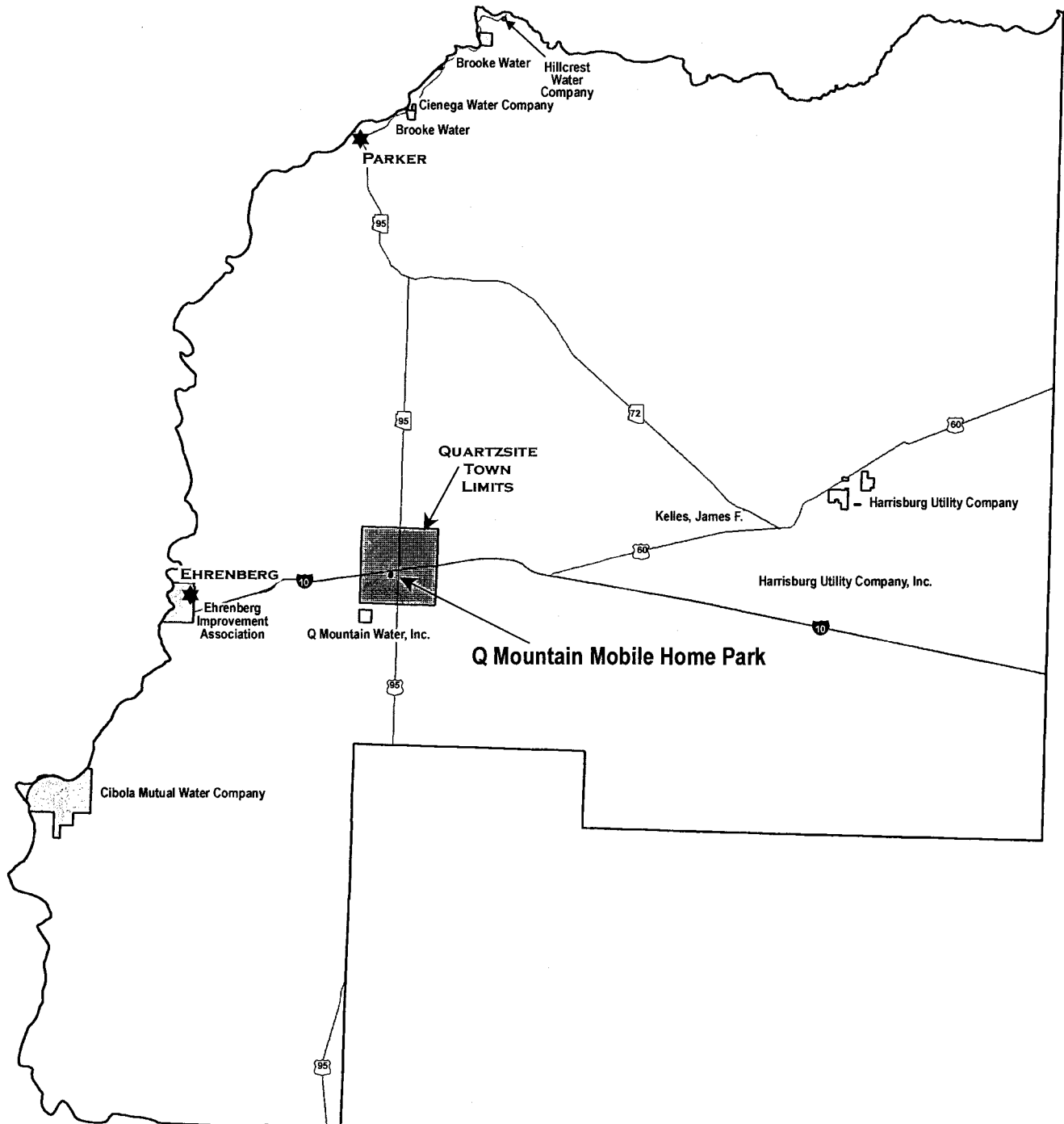
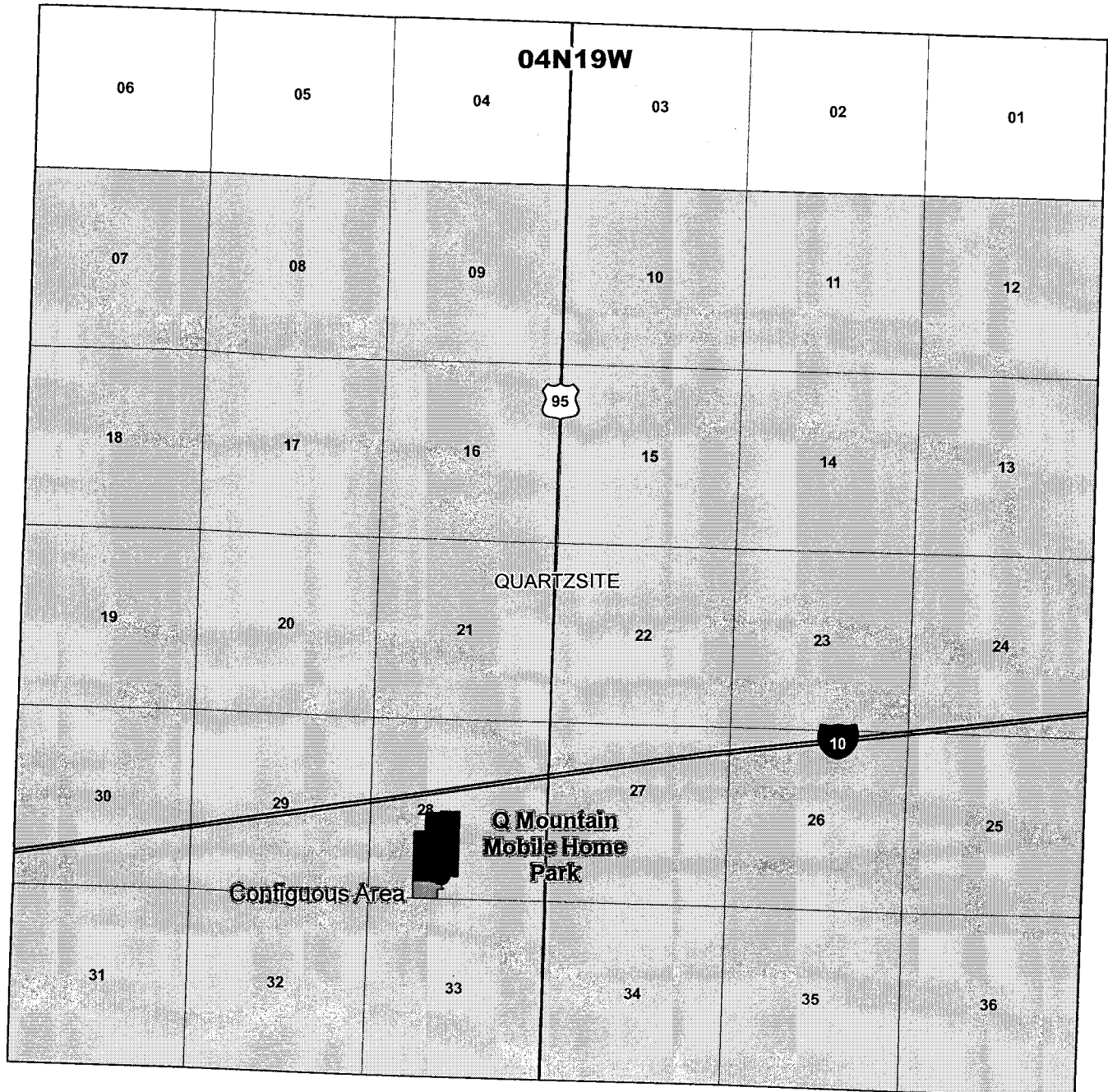


Figure 2

LA PAZ COUNTY



II. WATER SYSTEM

1. Description of the Water System

Q Mountain is a consecutive system to the Town water system¹ and purchases its water from the Town through a 6-inch master-meter installed on the Town interconnect. The Company is responsible for operating and maintaining its distribution system, metering and selling water to its customers. The Company's system does not employ any wells, storage facilities or booster pumps. Q Mountain plant in-service, as tabulated below, includes a water distribution system serving approximately 228 metered connections².

Water Source			
Name	Meter Size (in inches)	Interconnect Capacity (GPM)	Gallons Purchased in 2012
Town of Quartzsite	6	1,500	11,881,000

Mains			Customer Meters	
Size (inches)	Material	Length (feet)	Size (inches)	Quantity
2	PVC	2,690	5/8 x 3/4	227
4	PVC	9,440	1	1
6	PVC	3,665		

Other Appurtenances
Pressure Reduction Assembly (Installed in September 2012)
Backflow Prevention Assembly (Installed in October 2008 ³)

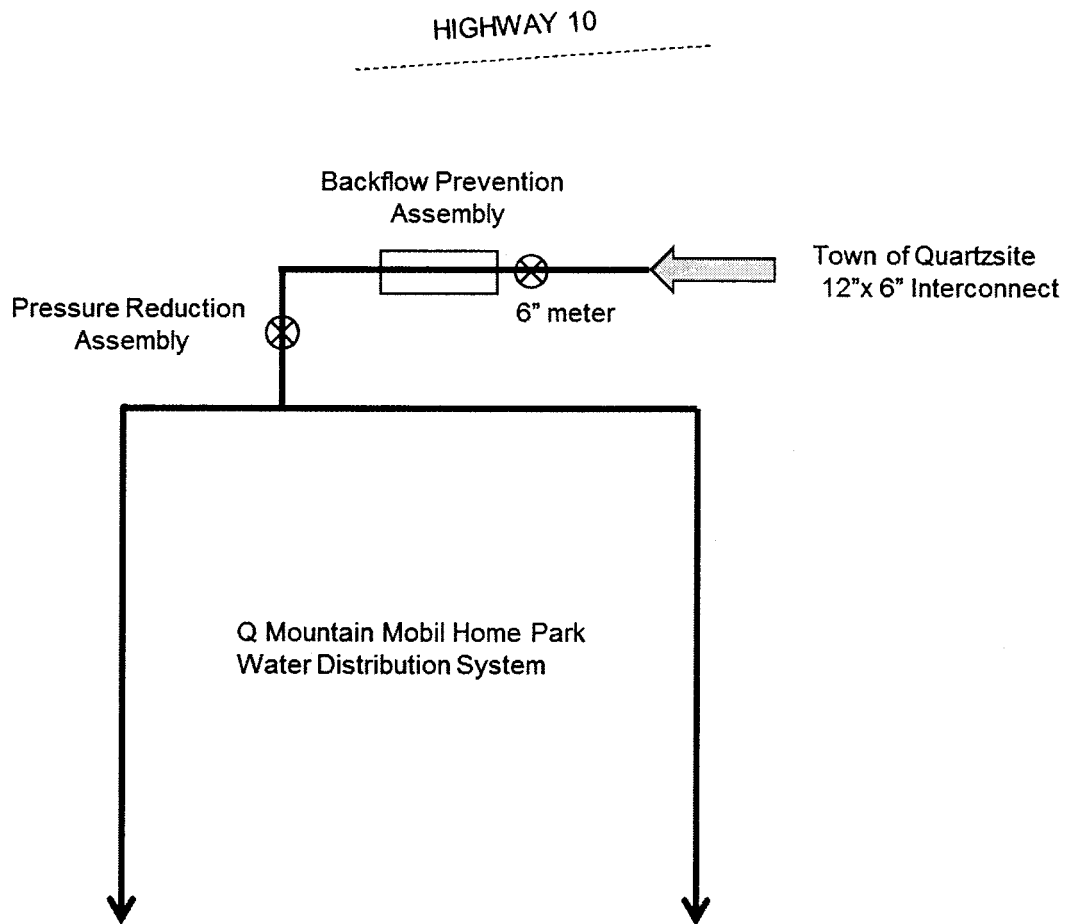
Structures
Mobile office building
Storage box

¹ The water system serving the Town is owned and operated by the Town.

² According to the Company, many of its customers are seasonal.

³ In October 2012, the Company replaced/rebuilt parts of the Backflow Prevention Assembly.

Figure 3 Water System Schematic

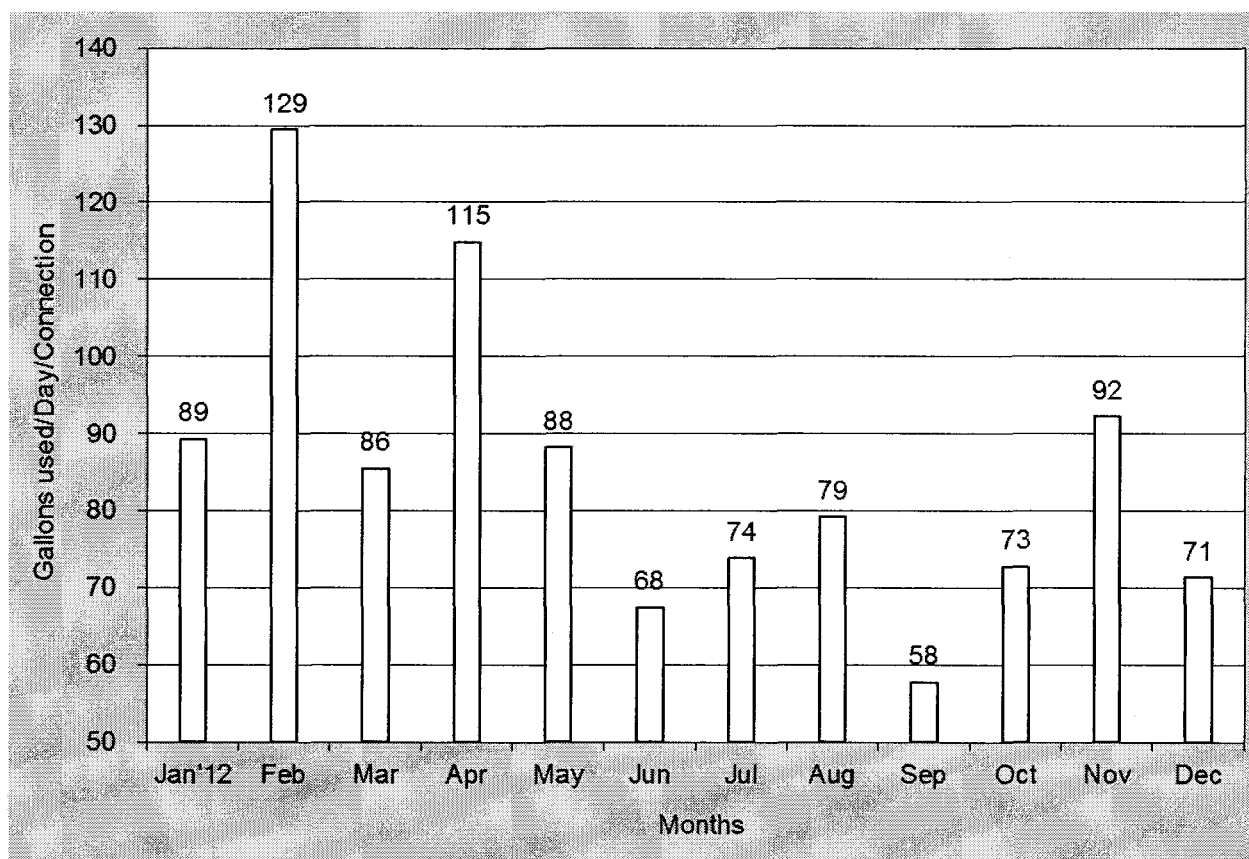


2. Water Use

Water Sold

Figure 4 represents the water consumption data provided by the Company in its water use data sheet for the test year ending December 31, 2012. The customer consumption included a high monthly water use of 129 Gallons Per Day (“GPD”) per connection in February, and the low water use was 58 GPD per connection in September. The average annual use was 85 GPD per connection.

Figure 4 Water Use



Non-account Water

Non-account water should be 10 percent or less, and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a company to identify water and revenue losses due to leakage, theft and flushing.

The Company reported 11,881,000 gallons purchased from the Town, 7,038,563 gallons sold to its customers and 220,000 gallons of non-revenue beneficial uses⁴ for the test year, resulting in a water loss of 39 percent, which exceeds the recommended threshold amount of 10 percent.

The Company believes that some of this water loss is attributable to unexpected water pressure above 60 pounds per square inch (“psi”) delivered to the Company’s distribution system by the Town. In September 2012, in an effort to control water loss, the Company installed a pressure reduction assembly to reduce pressure to 45 psi. The Company repaired numerous leaks and main breaks within the distribution system, which consists of shallow water piping in some areas. In 2013, the water loss was reduced to 32 percent⁵. The Company is currently in the process of getting its distribution system evaluated by the Arizona Department of Environmental Quality (“ADEQ”) Technical Assistance Program to determine the corrective measures needed to reduce the amount of lost water within the Q Mountain distribution system.

Staff recommends that the Company continue to record and monitor monthly water losses, repair any leak as soon as it is discovered and implement corrective measures recommended by the ADEQ Technical Assistance Program. Staff recommends that the Company submit a water loss monitoring report to the Commission every January and July, until water loss is less than 10 percent, or until further order of the Commission, whichever comes first. The water loss monitoring report should include gallons purchased, gallons sold, gallons of beneficial non-revenue uses and water loss percentage for each month during the year.

3. System Analysis

As a consecutive system, the Company depends upon the Town for its water supply, including storage. Based on the water use data provided by the Company for the Test Year, Staff concludes that the Company has adequate available water supply to serve its customer base and reasonable growth.

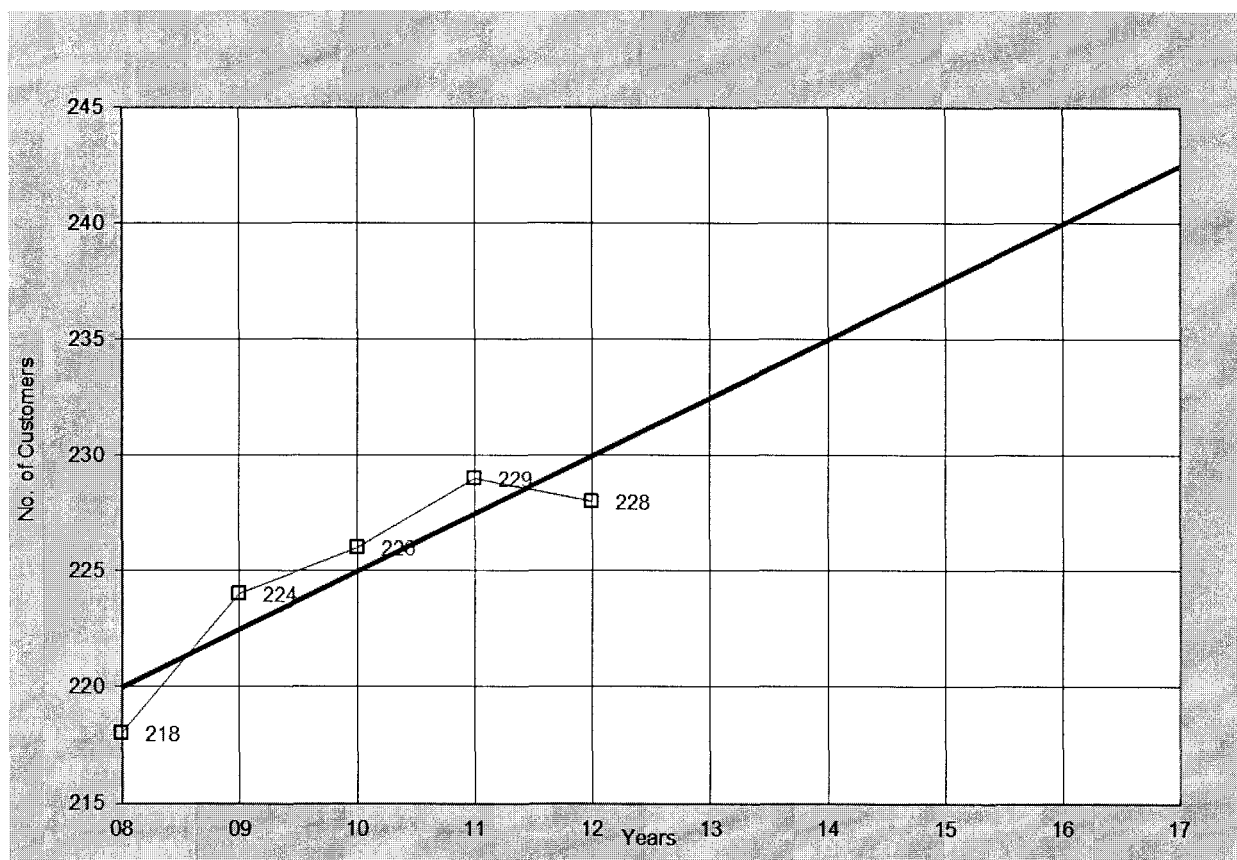
4. Growth

Based on customer data at the end of each year obtained from the Company’s Annual Reports, it is projected that the Company could have over 240 customers by 2017. Figure 5 depicts actual growth from 2008 to 2012 and projects an estimated growth for the next five years using linear regression analysis.

⁴ Per Company’s responses to data requests KS 1-2.b, the Company non-revenue beneficial use includes water for flushing and recharge of water lines after repairs of bursts.

⁵ Based on the Water Use Data from January through December 2013, e-mailed on January 6, 2014

Figure 5 Growth Projection



III. ADEQ

Compliance

ADEQ has reported that the Company has not submitted its monthly maximum residual disinfectant level for fourth quarter in 2012 nor for the first three quarters in 2013. One sample is required to be taken each time the Company collects a routine or repeat total coliform sample, and reported quarterly. The Company did not file required documents for Stage 2 disinfection byproducts that were due January 1, 2014. Based upon the monitoring and reporting deficiencies noted above, ADEQ cannot determine if the Company system is currently delivering water that meets water quality standards required by 40 C.F.R. 14 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.⁶

The Company hired a new operator for its system and anticipates resolving ADEQ compliance deficiencies in a matter of weeks.

⁶ Per ADEQ Compliance Status Report dated December 17, 2013.

ADEQ has reported that water being received by the Company via the Town interconnect meets water quality standards required by 40 C.F.R. 14 and Arizona Administrative Code, Title 18, Chapter 4.⁷

Staff recommends that any rate increase approved in this matter not become effective until the Company files with Docket Control documentation from ADEQ indicating that there are no compliance deficiencies and the Q Mountain Mobile Home Park Water System (Public Water System No. 15-509) is delivering water that meets the water quality standards required by 40 C.F.R. 14 and Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

The Company reported its water testing expense at \$530 during the test year. Based on data provided by the Company and the monitoring requirements by ADEQ, Staff estimated average annual water testing expenses for the Company at \$630. Table A shows the cost details of Staff's annual water testing expense estimate totaling \$630. Staff recommends annual water testing expense of \$630 be used for purposes of this proceeding.

TABLE A
WATER TESTING COST⁸

Monitoring	Cost per Sample	No of samples per year	Average Annual Cost
Total coliform - monthly	\$20	12	\$240
Maximum Residual Disinfection Level	n/a	12	n/a
TTHM-annual	\$100	1	\$100
HAA5-annual	\$210	1	\$210
Lead & Copper – per 3 years	\$48	5/3-yrs	\$80
Total			\$630

IV. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE

The Company's system is not located in an ADWR designated Active Management Area. ADWR has determined that the Company's water system is currently in compliance with ADWR requirements governing water providers and/or community water systems.⁹

V. ACC COMPLIANCE

A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for the Company.¹⁰

⁷ Per ADEQ Compliance Status Report dated December 23, 2013.

⁸ MAP Fees do not apply to consecutive systems since these systems do not have their own source of water.

⁹ Per ADWR Compliance Status Report dated December 23, 2013.

¹⁰ Per ACC Compliance status check dated December 19, 2013.

VI. DEPRECIATION RATES

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table B. Staff recommends that the depreciation rates delineated in Table B be used by the Company.

TABLE B
DEPRECIATION RATE TABLE FOR WATER COMPANIES

NARUC Account No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
2. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

VII. OTHER ISSUES

1. Service Line and Meter Installation Charges

The Company's current tariff schedule has no service line and meter installation charges. In its application the Company did not request these charges be added to its tariff. These charges are refundable advances. The Company has told Staff that the developer of the subdivision installed service lines and meters to most of 244 lots in the late 1980's and 1990's, and, therefore, the Company would prefer to continue not charging installation charges because it believes the administrative cost of refunding these charges outweigh any benefit.

Staff recommends approval of the Company continuing not to charge for service line and meter installations.

TABLE C
SERVICE LINE AND METER INSTALLATION CHARGES

Meter Size	Company's Current Charges	Company's Proposed/ Staff Recommended Charges
5/8" x 3/4"	N/A	N/A
3/4"	N/A	N/A
1"	N/A	N/A
1 1/2"	N/A	N/A
2"	N/A	N/A
3"	N/A	N/A
4"	N/A	N/A
5"	N/A	N/A
6"	N/A	N/A

2. Curtailment Plan Tariff

The Company has an approved curtailment plan tariff.

3. Backflow Prevention Tariff

The Company has an approved backflow prevention tariff.

4. Best Management Practices (“BMPs”)

The Company filed the following three proposed BMP’s for implementation in its system:

- Customer High Water Use Inquiry Resolution Tariff – BMP 3.6
- Customer High Water Use Notification Tariff – BMP 3.7
- Water System Tampering Tariff – BMP 5.2

These BMP tariffs conform to the template developed by Staff. Therefore, Staff recommends approval of the BMPs listed above for the Q Mountain system. The tariffs recommended by Staff are labeled as Attachment A. Staff further recommends that the Company notify its customers, in a form acceptable to Staff, of the BMP tariffs authorized in this proceeding and their effective date by means of either an insert in the next regularly scheduled billing or by a separate mailing and shall provide copies of the BMP tariffs to any customer, upon request. The Company may request cost recovery of actual expenses associated with the BMPs implemented in its next general rate application.

Company: Q MOUNTAIN VISTA W-02518A

Decision No.: _____

Phone: 928-927-3088

Effective Date: _____

Customer High Water Use Inquiry Resolution Tariff – BMP 3.6

PURPOSE

A program for the Company to assist its customers with their high water-use inquiries and complaints (Modified Non-Per Capita Conservation Program BMP Category 3: Outreach Services 3.6: Customer High Water Use Inquiry Resolution).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall handle high water use inquiries as calls are received.
2. Calls shall be taken by a customer service representative who has been trained on typical causes of high water consumption as well as leak detection procedures that customers can perform themselves.
3. Upon request by the customer or when the Company determines it is warranted, a trained Field Technician shall be sent to the customer's residence to conduct a leak detection inspection and provide the customer with water conservation measures. The leak detection inspection may consist of a meter read check for flow verification. If the on-site inspection is requested by the customer, the Commission approved meter re-read tariff fee shall apply.
4. The Company shall follow up in some way on every customer inquiry or complaint and keep a record of inquiries and follow-up activities.

Company: Q MOUNTAIN VISTA W-02518-A

Decision No.: _____

Phone: 928-927-3088

Effective Date: _____

Customer High Water Use Notification Tariff – BMP 3.7

PURPOSE

A program for the Company to monitor and notify customers when water use seems to be abnormally high and provide information that could benefit those customers and promote water conservation (Modified Non-Per Capita Conservation Program BMP Category 3: Outreach Services Program 3.7: Customer High Water Use Notification).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall track water usage for each customer and notify the customer if water use seems excessive for that particular billing for that time of the year.
2. The Company shall identify customers with high consumption and investigate each instance to determine the possible cause.
3. The Company shall contact the high water use customers via telephone, email, by mail or in person. The Company shall contact the customer as soon as practical in order to minimize the possible loss of water. The customer will not be required to do anything to receive this notification.
4. In the notification the Company shall explain some of the most common water usage problems and common solutions and points of contact for dealing with the issues.
5. In the notification, the customer will be reminded of at least the following water-saving precautions:
 - a. Check for leaks, running toilets, or valves or flappers that need to be replaced.
 - b. Check landscape watering system valves periodically for leaks and keep sprinkler heads in good shape.
 - c. Adjust sprinklers so only the vegetation is watered and not the house, sidewalk, or street, etc.
 - d. Continue water conservation efforts with any pools such as installing covers on pools and spas and checking for leaks around pumps.
6. In the notification, the customer will also be reminded of at least the following ordinary life events that can cause a spike in water usage:
 - a. More people in the home than usual taking baths and showers.
 - b. Doing more loads of laundry than usual.
 - c. Doing a landscape project or starting a new lawn.
 - d. Washing vehicles more often than usual.
7. The Company shall provide water conservation information that could benefit the customer, such as, but not limited to, audit programs, publications, and rebate programs.
8. The Company shall assist the customer in a self-water audit and assist the customer in determining what might be causing the high water usage as well as supply

Company: Q MOUNTAIN VISTA W-02518-A

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Effective Date: _____

customer with information regarding water conservation and landscape watering guidelines. As part of the water audit the Company shall confirm the accuracy of the customer meter if requested to do so by the customer (applicable meter testing fees shall apply).

9. The type of notification, the timing of the notification (i.e., how long after high water use was discovered by the Company), and the criteria used for determining which customers are notified shall be recorded and made available to the Commission upon request.

Company: Q MOUNTAIN VISTA W-02518A

Decision No.: _____

Phone: 928-927-3088

Effective Date: _____

WATER SYSTEM TAMPERING TARIFF – BMP 5.2

PURPOSE

The purpose of this tariff is to promote the conservation of groundwater by enabling the Company to bring an action for damages or to enjoin any activity against a person who tampers with the water system.

REQUIREMENTS:

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission, specifically Arizona Administrative Code ("AAC") R14-2-410 and the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. In support of the Company's water conservation goals, the Company may bring an action for damages or to enjoin any activity against a person who: (1) makes a connection or reconnection with property owned or used by the Company to provide utility service without the Company's authorization or consent; (2) prevents a Company meter or other device used to determine the charge for utility services from accurately performing its measuring function; (3) tampers with property owned or used by the Company; or (4) uses or receives the Company's services without the authorization or consent of the Company and knows or has reason to know of the unlawful diversion, tampering or connection. If the Company's action is successful, the Company may recover as damages three times the amount of actual damages.
2. Compliance with the provisions of this tariff will be a condition of service.
3. The Company shall provide to all its customers, upon request, a complete copy of this tariff and AAC R14-2-410. The customers shall follow and abide by this tariff.
4. If a customer is connected to the Company water system and the Company discovers that the customer has taken any of the actions listed in No. 1 above, the Company may terminate service per AAC R14-2-410.
5. If a customer believes he/she has been disconnected in error, the customer may contact the Commission's Consumer Services Section at 1-800-222-7000 to initiate an investigation.